S. CULTURE INTERNATIONAL HOLDINGS LIMITED
港大零售國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1255)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

		2017	2016 (Restated)
Revenue	*HK$'000*	**483,722**	562,474
Gross profit	*HK$'000*	**252,842**	320,527
Loss before taxation	*HK$'000*	**(42,931)**	(36,379)
Loss attributable to owners of the Company	*HK$'000*	**(43,442)**	(33,674)
Gross profit margin	*%*	**52.3**	57.0
Loss margin attributable to owners of the Company	*%*	**(9.0)**	(6.0)
Loss per share — basic	*HK$*	**(0.22)**	(0.17)

The board of directors (the "Board") of S. Culture International Holdings Limited (the "Company" or "S. Culture") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017, together with the comparative figures for the year 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** **HK$'000**	2016 *HK$'000* (Restated)
Revenue	4	**483,722**	562,474
Cost of goods sold		**(230,880)**	(241,947)
Gross profit		**252,842**	320,527
Other income		**1,350**	1,344
Other gains and losses		**5,184**	(51)
Selling and distribution costs		**(212,963)**	(263,108)
Administrative expenses		**(82,145)**	(91,378)
Other expenses		**(4,022)**	—
Finance costs		**(3,177)**	(3,713)
Loss before taxation	5	**(42,931)**	(36,379)
Taxation	6	**(511)**	2,705
Loss for the year		**(43,442)**	(33,674)
Other comprehensive income for the year			
Item that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		**1,852**	1,098
Total comprehensive expense for the year		**(41,590)**	(32,576)
Loss for the year attributable to owners of the Company		**(43,442)**	(33,674)
Total comprehensive expense attributable to owners of the Company		**(41,590)**	(32,576)
Loss per share — basic *(HK$)*	8	**(0.22)**	(0.17)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	**31.12.2017** **HK$'000**	31.12.2016 HK$'000 (Restated)	1.1.2016 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment		**38,425**	46,929	52,066
Investment properties		**29,000**	24,500	23,580
Deferred tax assets		**10,116**	10,155	6,773
Deposit and prepayment for a life insurance policy		**1,868**	1,862	—
Deposits paid for acquisition of property, plant and equipment		**—**	—	349
Rental deposits		**6,136**	10,940	19,216
		85,545	94,386	101,984
Current assets				
Inventories		**153,293**	227,121	251,713
Trade and other receivables	9	**72,163**	87,038	87,719
Derivative financial instruments		**—**	—	141
Taxation recoverable		**313**	2,795	2,896
Bank balances and cash		**24,287**	26,233	32,647
		250,056	343,187	375,116
Current liabilities				
Trade and other payables	10	**26,032**	24,469	26,992
Amount due to a director		**3,800**	—	—
Taxation payable		**485**	211	268
Obligation under a finance lease — due within one year		**—**	—	155
Bank borrowings — due within one year		**130,215**	195,867	199,103
		160,532	220,547	226,518
Net current assets		**89,524**	122,640	148,598
Total assets less current liabilities		**175,069**	217,026	250,582
Non-current liabilities				
Bank borrowings — due after one year		**8,842**	9,209	10,189
Net assets		**166,227**	207,817	240,393
Capital and reserves				
Share capital		**2,000**	2,000	2,000
Reserves		**164,227**	205,817	238,393
Total equity		**166,227**	207,817	240,393

NOTES

1. GENERAL

The Company is a listed public company incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company while its subsidiaries are principally engaged in the trading of footwear products.

Taking into account the continuous decrease in revenue attributable to, and the loss-making position of, the Group's operations in Taiwan, the Group has downscaled its operations in Taiwan by terminating the retail business during the year ended 31 December 2017. The Group will continue the wholesale business in the future. As a result of the downscale of operations in Taiwan, severance payments of HK$4,022,000 (2016: nil) was charged to profit or loss during the year ended 31 December 2017.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Except for the above, the HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for accounting period beginning 1 January 2017 and have not been early adopted by the Group.

3. SUMMARY OF THE IMPACT OF CHANGE IN AN ACCOUNTING POLICY

During the year ended 31 December 2017, the Group changed its accounting policy with respect to the measurement of investment properties. Prior to this change in policy, the Group applied the cost model, under which investment properties were stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. The Group now applies the fair value model, under which investment properties are stated at fair value and recognises the fair value changes to profit or loss in which they arise.

The directors of the Company believe that market value of the investment properties held by the Group will be better reflected in a more objective and fair manner through the adoption of the fair value model for the measurement of investment properties, which will assist the management and investors to keep abreast of the financial condition of the Group on a timely basis and provide more relevant and transparent information to the users of the consolidated financial statements of the Group.

The effects of the change in the Group's accounting policy described above on the results for the current and preceding years by line items presented in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Year ended	
	31.12.2017	31.12.2016
	HK$'000	*HK$'000*
Impact on loss for the year		
Decrease in administrative expenses	**13**	13
Increase in other gains	**4,500**	920
Net decrease in loss for the year	**4,513**	933
Decrease in loss for the year attributable to owners of the Company	**4,513**	933
Decrease in total comprehensive expense attributable to owners of the Company	**4,513**	933

Certain comparative figures have also been reclassified to conform with the current year's presentation.

The effects of the change in the Group's accounting policy described above on the financial positions of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2016, is as follows:

	As at 31.12.2016 *HK$'000* (Original stated)	**Adjustment arising from change in the accounting policy** *HK$'000*	**As at 31.12.2016** *HK$'000* (Restated)
Investment properties	751	23,749	24,500
Total effect on net assets	184,068	23,749	207,817
Accumulated profits	75,656	23,749	99,405
Total effect on total equity	184,068	23,749	207,817

The effect of the change in the Group's accounting policy described above on the financial positions of the Group as at the beginning of the comparative period, i.e. 1 January 2016, are as follows:

	As at 1.1.2016 *HK$'000* (Original stated)	**Adjustment arising from change in the accounting policy** *HK$'000*	**As at 1.1.2016** *HK$'000* (Restated)
Investment properties	764	22,816	23,580
Total effect on net assets	217,577	22,816	240,393
Accumulated profits	110,263	22,816	133,079
Total effect on total equity	217,577	22,816	240,393

	Year ended	
	31.12.2017	31.12.2016
	HK$	*HK$*
Impact on basic loss per share		
Basic loss per share before adjustment	**(0.24)**	(0.17)
Adjustments arising from change in the accounting policy	**0.02**	—
Reported basic loss per share	**(0.22)**	(0.17)

4. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to operating segments focusing on retail sales and wholesale of footwear products. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies which conform with HKFRSs, that are regularly reviewed by the chief operating decision makers, the executive directors of the Company. The executive directors of the Company regularly review revenue and results analysis by (i) retail sales and (ii) wholesale. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company.

- Retail sales: Retail sales channel refers to sales at the self-operated concession counters in department stores and self-operated retail stores.
- Wholesale: Wholesale refers to the sales to wholesale customers who resell the products to end-user consumers, typically at retail stores operated by wholesale customers.

The information of operating and reportable segments is as follows:

Segment revenue and results

For the year ended 31 December 2017

	Retail sales *HK$'000*	Wholesale *HK$'000*	Segment total *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
REVENUE					
External sales	**437,454**	**46,268**	**483,722**	**—**	**483,722**
Inter-segment sales	**—**	**180,305**	**180,305**	**(180,305)**	**—**
Segment revenue	**437,454**	**226,573**	**664,027**	**(180,305)**	**483,722**
Segment results	**(33,625)**	**(1,437)**	**(35,062)**	**(758)**	**(35,820)**
Unallocated income					**5,449**
Unallocated expenses					**(9,383)**
Finance costs					**(3,177)**
Loss before taxation					**(42,931)**

For the year ended 31 December 2016 (Restated)

	Retail sales *HK$'000*	Wholesale *HK$'000*	Segment total *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
REVENUE					
External sales	518,807	43,667	562,474	—	562,474
Inter-segment sales	—	252,934	252,934	(252,934)	—
Segment revenue	518,807	296,601	815,408	(252,934)	562,474
Segment results	(31,980)	3,102	(28,878)	(2,466)	(31,344)
Unallocated income					1,935
Unallocated expenses					(3,257)
Finance costs					(3,713)
Loss before taxation					(36,379)

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the (loss) profit earned from each segment without allocation of central administration costs, fair value loss on derivative financial instruments, change in fair value of investment properties, rental income, interest income, imputed interest income from deposit and prepayment for a life insurance policy, premium charges on a life insurance policy and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resource allocation and performance assessment.

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the respective group entities' operations:

	2017 ***HK$'000***	2016 *HK$'000*
Hong Kong	**353,303**	445,340
Taiwan	**109,995**	98,910
Macau	**12,278**	12,309
Mainland China	**8,146**	5,915
	483,722	562,474

5. LOSS BEFORE TAXATION

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Loss before taxation has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	**99,281**	108,698
Auditors' remuneration	**1,680**	1,535
Allowance for inventories (included in cost of goods sold)	**1,629**	—
Cost of inventories recognised as expenses	**229,251**	241,947
Depreciation of property, plant and equipment	**8,066**	10,839
Premium charges on a life insurance policy	**26**	21
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**4,150**	5,194
— retail stores (including in selling and distribution costs)		
— minimum lease payments	**85,728**	110,799
— contingent rent *(note)*	**2,347**	4,224
	88,075	115,023
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	**31,487**	31,600
— contingent rent *(note)*	**18,258**	28,129
	49,745	59,729
	141,970	179,946
Interest income	**(1)**	(73)
Imputed interest income from deposit and prepayment for a life insurance policy	**(32)**	(26)
Net exchange (gain) loss	**(1,892)**	797

Note: The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.

6. TAXATION

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**—**	375
Macau Complementary Tax	**68**	158
People's Republic of China ("PRC") Enterprise Income Tax	**452**	55
	520	588
(Over)underprovision in prior years	**(48)**	89
Deferred taxation	**39**	(3,382)
	511	(2,705)

The Company, which was incorporated in the Cayman Islands, together with those group entities incorporated in the British Virgin Islands have no assessable profits for both years.

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax was made in the consolidated financial statements for the year ended 31 December 2017 as the subsidiaries operating in Hong Kong have no assessable profits for the year.

Taiwan income tax is calculated at 17% (2016: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods Company Limited in Taiwan for the year. No provision for Taiwan income tax has been made in the consolidated financial statements as the branch operating in Taiwan has no assessable profits for both years.

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (2016: 9% to 12%) on the estimated assessable profit for the year.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% (2016: 25%).

7. DIVIDENDS

No dividend was proposed for ordinary shareholders of the Company during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).

8. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31 December 2017 is based on the loss for the year attributable to owners of the Company and the weighted average number of 200,000,000 (2016: 200,000,000) ordinary shares in issue during the year.

No diluted loss per share is presented as there are no potential ordinary shares in issue during both years.

9. TRADE RECEIVABLES

Retail sales are made at retail shops and concession counters in department stores. The department stores collect payments from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores range from 30 to 60 days. Sales made at retail shops are settled by cash or credit cards. For wholesale, the Group allows a credit period range from 30 to 60 days to its trade customers. The following is an aging analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**35,055**	49,049
31 to 60 days	**8,916**	3,878
61 to 90 days	**1,892**	2,132
Over 90 days	**1,736**	2,242
	47,599	57,301

10. TRADE PAYABLES

The following is an aging analysis of trade payables based on the invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**2,154**	1,161
31 to 60 days	**1,670**	1,833
Over 90 days	**15**	27
	3,839	3,021

The average credit period of trade payables is 30 days.

CHAIRMAN'S STATEMENT

As revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, in 2017, the total retail sales of footwear, allied products and other clothing accessories fell by 2.2% in volume as compared to the even year of 2016. Besides, in 2017, the average spending from visitors to Hong Kong fell by 3.6% as compared to the even year of 2016, which was quoted statistics from Immigration Department of Hong Kong, Hong Kong Tourism Board Travel Pattern Survey and Departing Visitor Survey.

In light of above, the retail segment of the Group in Hong Kong was materially affected, and therefore, the Group as a whole recorded a same store sales decline by approximately 10.6% and a net loss of approximately HK$43.4 million for the year.

Outlook

Under the difficult retail market conditions, the Group remained cautious in rationalising the extant mix and network of our retail outlets against the high costs of operations. We have been continuing our strategy to fine-tune our retail outlets mix by closing those low performing retail outlets, relocating retail outlets to other prime shopping locations with lower rentals and opening new short-term lease promotion outlets to improve store efficiency and effectiveness.

Taking into account of the continuous decrease in revenue attributable to, and the loss-making position of, its operation in Taiwan, the Group has planned to downscale its investment and operations. In light of this, the Group entered into an agreement of disposal of the properties located in Taiwan in December 2017.

The Board is highly aware of the value of good corporate governance. The Board follows closely the latest and expected standards of corporate ethics and governance. In addition, we also honour our corporate social responsibilities by addressing the needs of our staff and contributing to the community.

Finally, the new directors assessed the existing business operation of the Group in July 2017 following the changes in controlling shareholder of the Company and composition of the Board. We plan to diversify our business and explore investment opportunities in order to improve the performance of the Group and create better returns to our shareholders. We believe that our new Board will contribute their intelligence and effort to achieve sustainable and optimal returns to our shareholders.

CHANGE OF CONTROLLING SHAREHOLDER

On 12 January 2017, Shang Ying Financial Holding Co., Limited (the "Offeror") as a purchaser and Mr. Chong Hok Hei, Charles, Mr. Chong Hok Shan, Mr. Chong Hot Hoi, Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta, Ms. Chu Yuen Fan, Peggie, Ms. Wong May Heung, Ms. Wu Se and Come Good Investment (BVI) Limited (a company wholly owned by Mr. Chu Siu Ming) as vendors (collectively, the "Vendors") entered into the sale and purchase agreement (as supplemented and revised by agreements dated 7 and 28 April 2017) (the "SPA"), pursuant to which the Vendors have conditionally agreed to sell, and the Offeror has conditionally agreed to purchase, the sale shares (the "Sale Shares"), being 116,814,797 shares of the Company (the "Shares"), representing approximately 58.41% of the entire issued share capital of the Company, at an aggregate consideration of HK$467,259,188 (equivalent to HK$4.00 per Sale Share). Completion of the SPA (the "Completion") took place on 15 June 2017. Mr. Yang Jun, the sole ultimate beneficial shareholder of the Offeror has become the ultimate controlling shareholder of the Company upon the Completion. Subsequent to the Completion, an unconditional mandatory cash offer was made to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) at a price of HK$4.00 per Share (the "Offer"), and the Offer was closed on 10 July 2017.

Upon the close of the Offer, the Offeror and parties acting in concert with it were interested in, held, controlled or directed an aggregate of 165,073,617 Shares, representing approximately 82.54% of the entire issued share capital of the Company. The public float was then restored on 21 September 2017 upon completion of the placing of 15,080,000 Shares by the Offeror.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

Retail Operations

Revenue of the Group's retail business for the year ended 31 December 2017 (the "Year") was HK$437.5 million, representing a 15.7% decrease from HK$518.8 million of the even year of 2016. We had recorded a same store sales decline of approximately 10.6% during the Year (2016: 3.4%). This was mainly due to the prolonged weak retail climate in Hong Kong, resulting from the change in consumption patterns of the tourists from Mainland China after the Mainland government launched the "one trip per week" policy, the more cautious local consumer sentiment amid the uncertain economic conditions and the positive encouragement for outbound travelling and spending abroad.

Hong Kong

Hong Kong was still contributing a majority of sales as we had 48 (2016: 61) retail outlets under normal lease terms and 9 (2016: 11) retail outlets under short-term lease in the locality as of the Year end. As revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, the total retail sales of footwear, allied products and other clothing accessories fell by 2.2% in volume for the Year as compared to the even year of 2016. In view of the general decline in the retail sales and the changing consumption patterns of Mainland tourists and local citizens as mentioned above, we had experienced a same store sales decline of approximately 12.0% for our Hong Kong retail operations. During the Year, we boosted our promotion and bargaining activities and more discounts had been offered to stimulate the consumers' spending incentive. These activities inevitably eroded our profit margin. To enhance our efficiency in operations and maintain our competitive cost structure in the market, we streamlined our workforce, continued to time our salary increment plan in 2017 and to rationalise our retail network in Hong Kong. We regularly monitored the performance and productivity of each individual retail outlet, divested the non-performing retail outlets and negotiated for better rental terms with landlords and strategically opened new short-term lease promotion outlets. As at 31 December 2017, we had operated 9 short-term lease promotion outlets in Hong Kong to serve a wider base of customers and to alleviate the inventory pressure under this challenging retail environment.

Taiwan

Taiwan retail market stayed stagnant as the purchasing power of general consumers was continuously weak. The changes in Taiwan political and economic conditions have materially affected the growth and profitability of the operation in Taiwan. During the Year, we identified and opened our short-term promotion outlets in selected reputable department stores and bargaining outlets in prime locations to maintain our market presence and operation in Taiwan. At the same time, we kept on closing the under-performing and costly retail outlets to reduce our operating cost. Despite the management pursued flexible operating tactics to maintain the market share in Taiwan and applied stringent cost control measures to control our operating cost at a reasonable level, our Taiwan operation still experienced loss in the Year. After due consideration and taken into account of the persistently weak performance in Taiwan, we downscaled all the retail outlets in Taiwan and maintained our Taiwan operation at a minimal scale until the due identification of other potential investment opportunities.

Macau

The Group had maintained a comparable scale of its retail networks in Macau to reap the highest return amid the current level of economic conditions experienced in Macau. As at 31 December 2017, there were 2 retail outlets in Macau.

Mainland China

The popularity of online and mobile shopping through certain reputable e-commerce platforms in the Mainland posed heavy pressure on and a challenging business environment for our Mainland operation. During the Year, we continued to apply cautious steps towards our operation in the Mainland market. We kept on collaborating with our local and experienced business partners to sell our footwear products of "Josef Seibel", "The Flexx" and "Petite Jolie" in the Mainland China. Unfortunately, in light of our unsatisfactory performance in the Mainland China, the management considered to downscale the Group's investment and operation in the Mainland China but would keep on marketing the Group's products under the brands of "Clarks", "Josef Seibel", "Petite Jolie" and "The Flexx" in the duty free shop in Hainan province in the Mainland China.

Wholesale Operations

The Group's wholesale operations continued to be the other main segment of our overall operations. It complemented our retail operations as our wholesale customers enabled the Group to reach diverse segments of customers to sell our footwear products. The management expected this segment to continue to contribute to the Group as we would continue to put in a reasonable level of operating resources to maintain the current scale of operations.

Prospects

The global economy remained uncertain and it is expected that the economy of the Mainland China and Hong Kong will continually be slowed down. At this juncture, we remain cautious in rationalising the existing mix and network of our retail outlets against the high costs of operations. We would monitor the impact of the above-mentioned unfavorable operating factors on an on-going basis and pursue appropriate management tactics to optimise our operations in the areas of sales, inventory and supply chain management to maintain healthy presence in our operating territories. We would also continue to devote unrelenting effort on stringent cost containment measures to enhance our operation efficiency and to remain competitive in the market.

As mentioned in the interim report of 2017, the new Board plans to expand the Group's trading business into other products in the PRC market and is in the process of establishing a new subsidiary in the PRC for developing such business, tap into any business and investment opportunities in the financial industry, and raise fund for pursuing any business and investment opportunities. On 19 January 2018, the Group entered into an agreement to acquire 51% of equity interests in DSG Asset Management (Cayman) Company Limited and DSG Finance Holdings (Hong Kong) Limited, respectively. Moreover, on 1 March 2018, the Company completed placing of new Shares with the net proceeds amounting to approximately HK$54.36 million for financing the above acquisition, future investment and new business development.

We will continue to diversify our business and explore investment opportunities in order to improve the performance of the Group and create better returns to the shareholders.

FINANCIAL REVIEW

Revenue

Revenue of the Group's business for the Year was HK$483.7 million, representing a 14.0% decrease from HK$562.5 million for the even year of 2016.

With regard to the sales of the major brands under exclusive distribution agreements for the Year compared with the even year of 2016, sales of "Clarks" footwear products had decreased by 12.6%, sales of "Josef Seibel" footwear products had decreased by 20.3%, sales of "The Flexx" footwear products had decreased by 19.0% and sales of "Petite Jolie" footwear products had achieved a growth in sales of 29.0%, respectively.

As at 31 December 2017, the Group operated 57 retail outlets in Hong Kong and 2 retail outlets in Macau. As at the even date of 2016, the Group operated 72 retail outlets in Hong Kong, 2 retail outlets in Macau, 3 retail outlets in Mainland China and 48 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK$230.9 million for the Year, representing 47.7% of revenue (2016: HK$241.9 million, representing 43.0% of revenue). The decrease in cost of goods sold was mainly due to the decrease in sales activities of the Group.

Gross Profit

Gross profit (gross profit equals to revenue minus cost of goods sold) of the Group for the Year was HK$252.8 million, representing a decrease of 21.1% from HK$320.5 million of the even year of 2016. Gross profit margin of the Group for the Year was 52.3% (2016: 57.0%). The drop in gross profit margin was mainly due to the widespread discounting and the increase in extent of promotions and bargaining activities to reduce our inventory level. The opening of short-term promotion outlets during the Year has also driven down our gross profit margin.

Depreciation

Depreciation accounted for 1.7% of revenue for the Year (2016: 1.9%).

Staff Costs

Staff costs for the Year were HK$99.3 million, representing 20.5% of revenue (2016: HK$108.7 million, representing 19.3% of revenue). The decrease in staff costs was mainly due to the decrease in number of staff of the Group as compared to the even year of 2016 and the suspension of salary increment plan in 2017.

Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Year amounted to HK$142.0 million, representing 29.4% of revenue (2016: HK$179.9 million, representing 32.0% of revenue). The decrease in the retail outlet rentals and related expenses was mainly due to the decrease in the number of our retail outlets during the Year. Our concession fees for the Year amounted to HK$49.7 million (2016: HK$59.7 million). Such decrease was mainly due to the decrease in the number of concession counters and the corresponding decrease in the sales made through these concessions, based on which part of the fees were charged.

Finance Costs

Our finance costs for the Year amounted to HK$3.2 million (2016: HK$3.7 million). The finance costs were mainly interest expenses incurred on the mortgage facilities for our office premises in Taiwan and trade-related financing facilities with banks. The effective interest rates on the Group's borrowings ranged from 1.5% to 2.8% (2016: 1.9% to 2.8%).

Loss Before Tax

As a result of the foregoing, our loss before tax for the Year was HK$42.9 million, representing a 17.9% increase from the loss before tax of HK$36.4 million for the even year of 2016.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 31 December 2017, the Group had bank deposits and cash amounting to HK$24.3 million (2016: HK$26.2 million), representing a decrease of 7.3% from 31 December 2016. Most bank deposits and cash were denominated in Hong Kong dollars. As at 31 December 2017, the Group had short-term bank borrowings amounting to HK$130.2 million (2016: HK$195.9 million), representing a decrease of 33.5% from 31 December 2016. As at 31 December 2017, the Group had long-term bank borrowings, comprising mainly mortgage for our office premises in Taiwan, amounting to HK$8.8 million (2016: HK$9.2 million), representing a decrease of 4.3% from 31 December 2016.

Pledge of Asset

As at 31 December 2017 and 2016, land and buildings, investment properties of a subsidiary of the Company and deposit and prepayment for a life insurance policy were pledged to secure the bank borrowings and banking facilities granted to the Group.

As at 31 December 2017 and 2016, bills receivables were pledged to secure the loans related to bills discounted with recourse.

Investment Properties

The fair value of the Group's investment properties as at 31 December 2017 was HK$29.0 million. The fair value as at 31 December 2017 was arrived at based on a valuation carried out on that date by ROMA Appraisals Limited, an independent valuer not connected with the Group and being a member of Hong Kong Institute of Surveyors.

Future Plans for Material Investments or Capital Assets

As disclosed in the paragraph headed "Prospects" above, the Group plans to tap into any business and investment opportunities in the financial industry, including possible acquisitions (such as the proposed acquisition of the controlling interests in companies which hold various licensed corporations under the Securities and Futures Ordinance as disclosed in the discloseable transaction announcement of the Company dated 19 January 2018) and starting up of new businesses.

Treasury Policy

The Group adopts treasury policy that aims to better control its treasury operations and lower borrowing cost. As such, the Group endeavours to maintain an adequate level of cash and cash equivalents to address short-term funding needs. The Board will also consider various funding sources depending on the Group's funding needs to ensure that the financial resources have been used in the most cost-effective and efficient way to meet the Group's financial obligations. The Board reviews and evaluates the Group's treasury policy from time to time to ensure its adequacy and effectiveness.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Ventures

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year.

Foreign Currency Risk

The Group's sales and purchases for the Year were mostly denominated in Hong Kong dollars, Renminbi, Macau Pataca, New Taiwan dollars, Euros and US dollars. The Renminbi is not a freely convertible currency. The currency market for Macau Pataca is relatively small and undeveloped. Therefore, our ability to convert large amounts of Macau Pataca into Hong Kong dollars over a relatively short period of time may be limited. The exchange of New Taiwan dollars is restricted and governed by various government rules regarding the application of outward remittance. In view of the above, future exchange rates of the above currencies could vary significantly from the current or historical exchange rates as a result of the controls that could be imposed by the respective governments and the depth and breadth of the respective markets of currency exchange. The respective exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the respective currencies. The appreciation or devaluation of the respective currencies against Hong Kong dollars may have an impact on the Group's results.

Human Resources

As at 31 December 2017, the Group employed 325 employees (2016: 440). Remuneration packages are generally structured by reference to market terms and individual qualifications and experience. During the Year, various training activities, such as training of product and service knowledge, management skills as well as local consumer laws, have been conducted to improve the quality of sales services.

Dividends

The Board has resolved not to recommend the payment of a final dividend for the Year (2016: Nil).

Total Shareholder Return

Total shareholder return ("TSR") is calculated based on capital gains and dividends of the Shares. The Company had a TSR of approximately negative 6.02% for the Year (2016: 87.6%).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Year.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities. Following specific enquiry made to the directors, each of them has confirmed their compliance with the required standard set out in the Model Code throughout the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Company's directors, as at the date of this announcement, the Company has maintained the prescribed minimum public float under the Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference, in accordance with Appendix 14 to the Listing Rules, on 11 June 2013. The primary duties of the audit committee are, amongst other things, to review and supervise the financial reporting processes and risk management and internal control systems of the Company.

The audit committee, comprising all the three independent non-executive directors, has reviewed with management the principal accounting policies adopted by the Group and discussed the risk management and internal control systems and financial reporting matters including a review of the audited consolidated financial statements for the Year.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

APPRECIATION

The Board would like to thank the management of the Group and all our staff for their hard work and dedication, as well as its shareholders, business partners and associates, bankers and auditors for their support to the Group.

By order of the Board
S. Culture International Holdings Limited
Yang Jun
Chairman

Hong Kong, 28 March 2018

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Yang Jun, Mr. Lin Zheming and Mr. Zhu Fangming, three non-executive directors, namely, Mr. Law Fei Shing, Mr. Lin Jun and Mr. Chu Chun Ho, Dominic and three independent non-executive directors, namely, Mr. Xie Rongxing, Mr. Chen Huigang and Mr. Lum Pak Sum.